
The Re-Commodification of US Higher Education

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INTRODUCTION

Educating an estimated 68 percent of total college students,¹ public higher education institutions in the United States provide an increasingly important service to a growing student body. The inimical surge of public college prices in the US has spurred much debate over where to place blame. While some *prima facie* arguments decry decreased state funding, others accuse recalcitrant public colleges of putting accrued state subsidies toward non-academic pursuits. Yet it could be simply an economic question of supply and demand with institutions raising prices in response to the increased labor-market viability of their product.

Rising tuition prices are best described as a symptom of the increased cost of education—i.e., how much institutions must spend on educating students. Continued dependence on updated technology, coupled with a concordant surge in enrollments, expanded the output necessary for both public four-year and public two-year colleges in the US.

Public policy and low state-level tax revenues left public colleges financially unable to cover the rising cost of education, forcing institutions to convert from a system predominantly funded by state and federal appropriations to a commodified, predominantly tuition-based funding model, in which federal aid subsidizes individuals' tuition. Increased institutional costs, susceptibility to austerity and low-tax revenues have acted as the predominant variables affecting this process of conversion (i.e., price increases) in public higher education.

THE RISING PRICE AND COST OF COLLEGE

Along with increases in average published tuition, public colleges have faced several changes over the last few decades. From 1970 to 2014, enrollments² at public institutions rose by roughly 128 percent—from 6.4 million to 14.7 million students. The 1970s saw one of the largest enrollment surges in the post-war period, with the 2000s coming in second. For this reason, the 1970s can be viewed as a prudent starting point for viewing enrollment expansion. Some arguments view deindustrialization, the comparative increase of white-collar wages, and the later rise in the highly educated, information and communications technology (ICT)-based service sector as the main catalyst for such expansions.³ Additionally, Archibald and Feldman draw upon “skill-biased technological change,”⁴ wherein the use of new technology drives up skill and educational requirements, increasing both the demand and return of a college degree.

Concurrent with enrollments, tuition rates at public colleges began surging in the early 1980s. From 1983 (first year with available data in dataset) to 2015, tuition at public four-year institutions increased by approximately 130 percent in inflation adjusted dollars, while prices rose by roughly 60 percent at public two-year institutions (see Fig. 1).⁵ Thus, following the marked

¹ Pew Charitable Trusts. *Federal and State Funding of Higher Education*. 2015, <http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2015/06/federal-and-state-funding-of-higher-education>

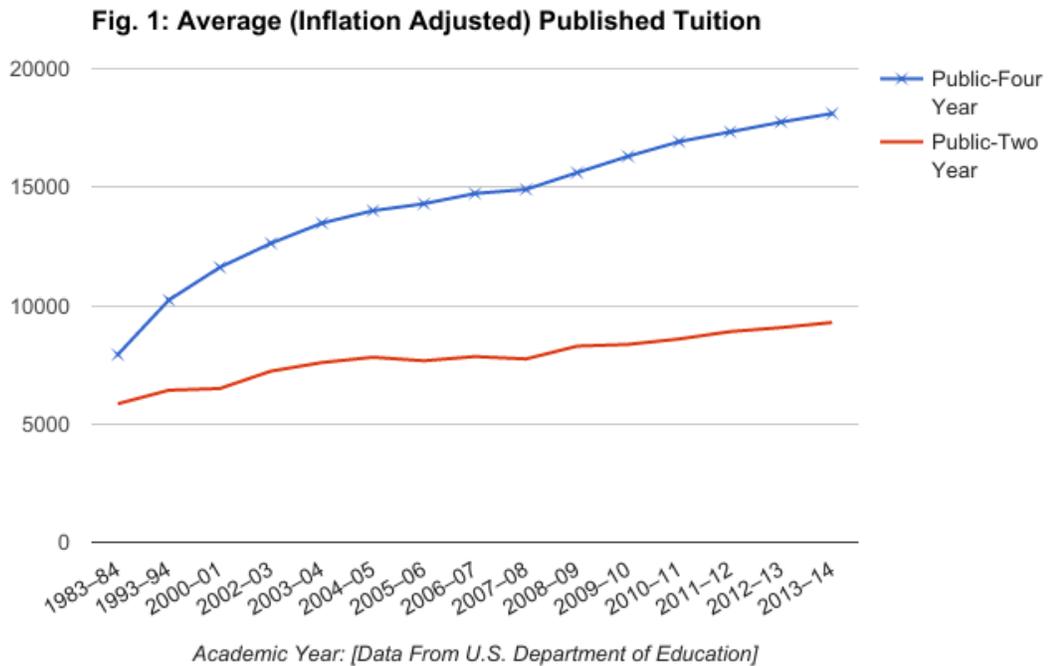
² Quantified by the National Center for Education Statistics as total fall enrollment for all public degree-granting institutions for a given year.

³ Lawrence Katz and Robert A. Margo. “Technical Change and the Relative Demand for Skilled Labor: The United States in Historical Perspective.” in *Human Capital in History: The American Record*. (University of Chicago Press, 2014).

⁴ Robert Archibald and David Feldman, *Why Does College Cost So Much?* (New York: Oxford University Press, 2011), 56.

⁵ U.S. Department of Education, National Center for Education Statistics. Digest of Education Statistics, (2015), https://nces.ed.gov/programs/digest/d16/tables/dt16_330.10.asp?current=yes

enrollment surge of the 1970s, a subsequent tuition spike occurred beginning in the early 1980s.



Following consistent annual tuition hikes, public colleges came to rely more on tuition as a revenue source. In 1990 (the first year with given data), tuition, on average, made up roughly 25 percent of institutional revenue at public colleges, while in 2015 tuition accounted for 46.5 percent of total institutional revenue.⁶ Why the increased budgetary reliance on tuition? According to a recent State Higher Education Executive Officers Association report, “Since 1990, student FTE (full time equivalent) enrollment has increased 43 percent, while (state and local) educational appropriations per FTE have declined 20 percent, meaning state and local funding has not kept up with either inflation or enrollment growth over time.”⁷ Another way to gauge total state funding of higher education is via funding per \$1,000 in student personal income—a figure that has dropped from 6.73 to 5.28 since 1984.⁸

Prior to 2013, state and local appropriations consistently made up the majority of institutional revenues. By 2013-’14, however, tuition became, for the first time, the highest percentage average revenue source, while state and local appropriations decreased, both making up around 30 percent of revenue, respectively.⁹ At public two-year colleges, a similar pattern emerged; however, state and local appropriations still make up the vast majority of revenues, while federal dollars make up a small fraction.

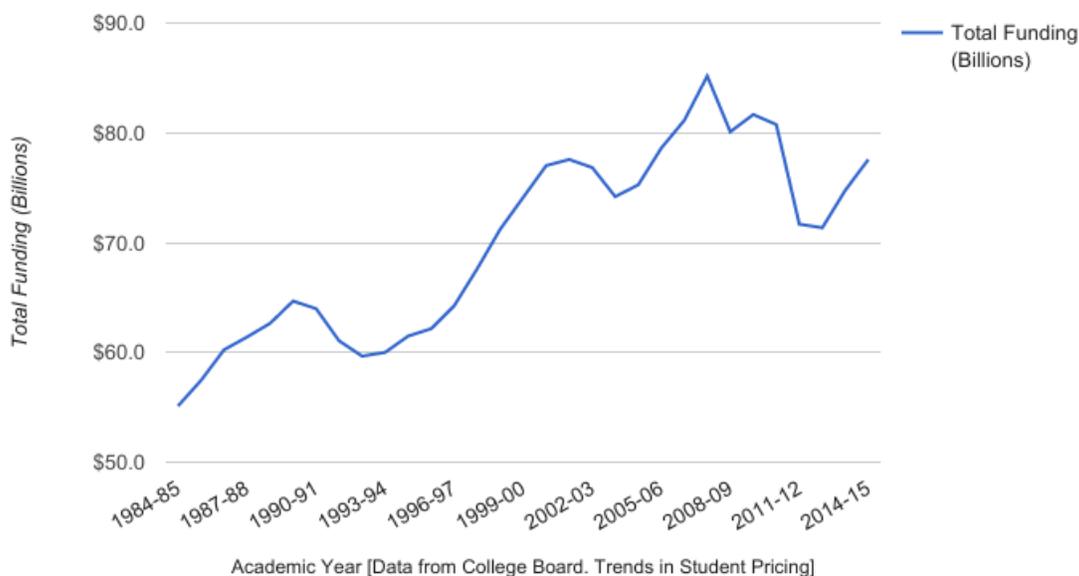
⁶ State Higher Education Executive Officers Association (SHEEO). *State Higher Education Finance: FY 2015*. 2015., http://sheeo.org/sites/default/files/project-files/SHEEO_FY15_Report_051816.pdf

⁷ Ibid., 19.

⁸ Grapevine. *Historical Data*. (University of Illinois. 2008, 2016), <https://education.illinoisstate.edu/grapevine/historical>.

⁹ SHEEO, *State Higher Education Finance*

Fig. 2: Total (inflation adjusted) State and Local Funding for Two and Four-year Public Colleges



In concordance with tuition and public revenue, we also must draw our attention to the increased cost of education—i.e., the institutional price of educating students. In the decade preceding 2013-'14, educational expenditures per full-time-equivalent student rose by 16 percent at public four-year colleges (the SHEEO report does not provide data before this period). Concurrently, public two-year institutions saw a four percent rise.¹⁰ Thus, heightened enrollment has not simply increased expenditures, as the cost of education *per individual student* exhibits a marked increase over time as well. Placing the blame of heightened prices on consistently declining state funding belies the importance that such cost plays in college tuition increases. For instance, while state and local appropriations declined in certain periods (particularly during and following recessions), such funding has increased by roughly 40 percent since the mid-1980s. Leading up to the most recent recession, appropriations peaked in 2007, indicating a 55 percent increase from the mid-1980s (appropriations declined dramatically following the recession and recently began to climb: see Fig. 2).¹¹ Tuition consistently rose even during periods wherein state appropriations increased. To best explain this paradox, we must analyze how the institutional cost of providing education has changed over time.

COST DISEASE: THE ISSUE OF PRODUCTIVITY IN HIGHER EDUCATION

Before approaching government and institutional cost shifts, a focus must be placed on the variables that incentivize and drive conversion. Conversion is best understood as a direct response to the rising cost of education. Beyond the costs needed to cover output in the face of heightened enrollments, higher education's status as a technology-reliant service dependent on highly educated workers and, in most cases, face to face interaction has impaired many public institutions' ability to increase productivity. Not only has demand increased, but the price of education per student has risen.

¹⁰ SHEEO, *State Higher Education Finance*, 27.

¹¹ College Board. *Trends in College Pricing*. (Washington D.C., 2016) <https://trends.collegeboard.org/college-pricing>

The changes in post-secondary education most closely resemble shifts in the cost of legal services and health care. Archibald and Feldman argue that such productivity issues have plagued higher education since the 1980s: “The actual measures of productivity change are *negative* for healthcare and educational services since the 1980s, which means we currently use more input than in the past to achieve the same level of output ... Costs must go up as a consequence.”¹² Public colleges attempted to attenuate these rising costs through the use of online courses, part-time adjunct and graduate student faculty, and increasing class sizes, which have had little effect on productivity and cost: “Productivity measured as students taught per labor hour is the type of productivity that has failed to rise in higher education in any sustained fashion over the last century.”¹³

Total expenditures, adjusted for inflation, at public institutions constantly rose by roughly \$204 million, or 170 percent, between 1980 and 2013-'14 (data not available after 2014). More recently, instructional expenditures at public four-year colleges increased by 12.4 million, or 23 percent, between 2007-'08 and 2013-'14. Nearly all institutional expenditures from student services to operation and maintenance costs have increased substantially over the years.¹⁴

COST CONTAINMENT: HIGHER EDUCATION AND AUSTERITY

As costs have risen, budgetary issues and austerity have impacted public colleges, directly affecting available general funds. These monetary issues specifically affect higher education for a number of reasons: (1) since about the mid-1970s state tax-derived budgets have failed to provide adequate funding; (2) higher education is uniquely pliant in that it can balance its budget in the face of cutbacks by shifting costs to students in ways that public services, such as K-12 education, cannot; (3) for this reason spending cutbacks hit public higher education first, especially during and following recessions.

Currently, the aggregate amount of state tax revenue available to public higher education institutions has dropped to its lowest point.¹⁵ Archibald and Feldman attribute the decline in available public revenue to the so-called tax revolt of the 1970s. Beginning in 1976, 23 states enacted tax limitations, directly affecting higher education. Archibald and Feldman’s analysis shows that “a state’s effort in support of its colleges and universities declined much more precipitously in the presence of tax-revolt provisions.”¹⁶ Borrowing Paul Pierson’s terminology, higher education is coping with a form of “permanent austerity.”¹⁷

On average, higher education spending as a percentage of total general fund spending is declining. In 1987 (the first year with recorded data), higher education made up 15.5 percent of general funding. By 2015, that number dropped 10 percent, while Medicaid spending more than doubled, rising from eight to 19 percent.¹⁸ Much like higher education, Medicaid faced cost increases due to heightened costs of providing care (partially due to rising prescription drug prices) and a surge in recipients. As a codified public service, however, Medicaid is unable to push costs onto recipients in the same way public colleges can with heightened tuition prices. The most recent

¹² Archibald and Feldman, *Why Does College Cost So Much?*, 69.

¹³ *Ibid.*, 71.

¹⁴ U.S. Department of Education, National Center for Education Statistics. Digest of Education Statistics, (2015), https://nces.ed.gov/programs/digest/d15/tables/dt15_334.10.asp; (1995) <https://nces.ed.gov/programs/digest/d95/dtab330.asp>

¹⁵ SHEEO, *State Higher Education Finance*.

¹⁶ Archibald and Feldman, *Why Does College Cost So Much?*, 146.

¹⁷ Paul Pierson. “Coping With Permanent Austerity: Welfare State Restructuring in Affluent Democracies,” in *The New Politics of the Welfare State*, ed. Paul Pierson (Oxford University Press, 2001).

¹⁸ National Association of State Budget Officers (NASBO). *A Guidebook on State Budgeting for Higher Education*. (Washington, D.C., 2015), <https://higherlogicdownload.s3.amazonaws.com/NASBO/9d2d2db1-c943-4f1b-b750-0fca152d64c2/UploadedImages/Reports/Higher%20Education%20State%20Budgeting%20Guidebook.pdf>

National Association for State Budget Officers report denotes this as a problem occurring in nearly every state: “costs are indeed rising over time ... specific cost drivers are increasing the need for additional revenues far beyond what states can reasonably afford, especially given spending pressures in areas such as Medicaid and K-12 education.”¹⁹

Due to their ability to offset cuts via tuition hikes, public colleges are often the first victims of state budget cuts during recessions. Higher education’s ability to retain a balanced budget in the face of austerity is a prime example of what Pierson calls rationalization, or “modification of programmes in line with new ideas about how to achieve established goals.”²⁰ Conversion policies are rationalized in the face of higher education’s unique ability to re-commodify in ways that other public services cannot. As a member of the Ohio House of Representatives stated, “It was easier to cut something that could be replaced. When we made the budget cuts, we really felt that we were not hurting higher education.”²¹ Thus, following recessions, states are prone to defund higher education more than other public services.

On the state level, then, inevitable cost increases in public tertiary education have compounded with low tax revenues, spending pressures in other public services and austerity measures during recessions. Not only have budgets, on average, not kept pace with heightened costs, higher education’s ability to offset costs in the face of these three variables has provided fecund ground for conversion to occur.

CONVERSION

Given that state appropriations have steadily risen since the 1980s with intermittent declines during recessions, state-led political institutions have not defunded higher education; rather, they have conferred new costs onto students. Since 1964, the passing of the Higher Education Act codified federal need-based support for students. As tuition continued to rise and state funding per \$1,000 of student income decreased, students increasingly depended on federal aid. Such need-based aid indirectly attempts to attenuate rising student costs via individual federal grants that discount the amount paid by recipient students without decreasing tuition for students *en masse*. In more recent years, federal aid underwent another form of conversion, in which an emphasis on loans and student borrowing outpaced need-based aid.

From its inception, higher education mostly relied on the trinity of federal, state and tuition-based funding. Over time, none of these revenue sources disappeared, nor remained stagnant. As educational costs rose, state appropriations increased at times, but, as we have seen, at a markedly lower pace. Thus, within the triad of revenue sources, tuition and fees expanded more rapidly than both state and federal aid.

The historical move from a public policy of ubiquitous low-tuition directly funded via federal and state level institutional grants toward a system of need-based aid and higher tuition illustrates the process of re-commodification in public higher education—a trajectory that occurred hand-in-hand with a process of conversion. Hacker, Pierson and Thelen denote conversion as a process whereby existing policies are redirected, rather than ignored, to adapt to changes:

By conversion we mean the transformation of an already-existing institution or policy through its authoritative redirection, reinterpretation, or reappropriation ... Conversion occurs when (1) institutions or rules are sufficiently

¹⁹ National Association of State Budget Officers (NASBO). *A Guidebook on State Budgeting for Higher Education*. (Washington, D.C., 2015), <https://higherlogicdownload.s3.amazonaws.com/NASBO/9d2d2db1-c943-4f1b-b750-0fca152d64c2/UploadedImages/Reports/Higher%20Education%20State%20Budgeting%20Guidebook.pdf>

²⁰ Pierson, “Coping With Permanent Austerity”, 425.

²¹ Donald E. Heller. *The States and Public Higher Education Policy*. (Maryland: John Hopkins University Press, 2001), 49.

*malleable that they can serve multiple ends; (2) those ends are politically contested; and (3) political actors are able to redirect an institution or policy to serve new functions while (4) leaving its formal rules in place.*²²

Regarding shifts in higher education, the conversion model applies equally, but in different respects to federal and state funding, which exhibit interlocking but differentiated processes of conversion.

CONVERSION IN STATE FUNDING

On a state level, conversion has predominantly occurred via a shift toward student-derived appropriations in the form of tuition and fees. With regard to Hacker, Pierson and Thelen's model, the state level conversion of public higher education occurs when funding sources are redirected and re-appropriated as a direct response to increased costs and institutions' unique pliancy. The most recent NASBO report backs this model in the context of recent post-recession declines in state appropriations: "As a general pattern, institutions have reacted to declining state appropriations by shifting more of the cost burden onto students, rather than finding ways to significantly reduce overall costs."²³ As we have seen, conversion continues to occur even when appropriations are not declining, as illustrated by the fact that tuition rates consistently climbed even during periods of rising or stagnant appropriations.

Prior to 2013, state general funds made up the majority of operating revenues at public institutions. Now, tuition has a newfound stance as the largest proportion of institutional revenue, representing a "dramatic swing in the way that states are funding higher education ... (reflecting) a willingness to have students share a greater portion of the costs."²⁴ Unlike a process of drift, wherein government actors turn their backs on certain services, conversion denotes the process whereby fungible state funding sources actively shifted toward students and away from general funds and tax revenues. As Archibald and Feldman argue, "By many measures, state governments have retreated substantially from their earlier commitment to low-priced public university education."²⁵

Of course, cross-state differences exist throughout the US regarding tuition-setting policy and the price of education. Policy makers attempt to retain control of the triad of price, quality and subsidy costs; however, only two of these areas can be controlled, while the other will decline: "If you force universities to hold the line on price (while underlying costs are rising), then you cannot maintain quality unless the subsidy rises. If you cut the subsidy, you cannot hold the line on price unless you are willing to see quality fall."²⁶ While aggregate data doesn't account for substantial state differentials in tuition prices, the relative weights institutions place on the triad of cost, quality and subsidy can account for the variations in tuition. In other words, the extent to which conversion is used on a state-by-state basis will affect at least one portion of this triad. For example, Florida shifted from having the lowest tuition in the US to adopting rapid tuition hikes as the state's high-subsidy, low tuition policy resulted in "less than sufficient funds to help meet enrollment demands, attract top faculty talent and provide adequate student services."²⁷ In response, Florida's legislature pushed a deregulated tuition-setting model, wherein the state provided colleges with more tuition setting authority, which resulted in rising prices to cover institutional costs. Again, we see costs

²² Jacob S. Hacker, Kathleen Thelen and Paul Pierson, "Drift and Conversion: Hidden Faces of Institutional Change." in *Advances in Comparative Historical Analysis*, ed. James Mahoney and Kathleen Thelen. (Cambridge University Press, 2015), 185.

²³ NASBO. *A Guidebook on State Budgeting for Higher Education*, 14.

²⁴ *Ibid.*, 11.

²⁵ Archibald and Feldman, *Why Does College Cost So Much?*, 143.

²⁶ *Ibid.*, 93.

²⁷ Lesley McBain. "Tuition-Setting Authority and Deregulation at State Colleges and Universities. Policy Matters: A Higher Education Policy Brief." American Association of State Colleges and Universities (2010), 3.

affecting the ability of states to keep tuition prices down. In the Florida example, the issue is not appropriation cuts, but the lack of necessary appropriation *increases* that enable heightened tuition.

Some states, such as Texas, recently enacted so-called tuition setting deregulation (providing institutions with more tuition setting authority) and exhibited a marked, comparative increase in tuition levels, as tuition deregulation increases the force of state-level conversion.²⁸ While California's public four-year institutions witnessed some of the highest price increases in the past few years, the state flaunts one of the most inexpensive public two-year systems in the nation. Low cost of city colleges in California is attributed to generous state and local appropriations, which make up the majority of institutions' operating revenue. Not only has the state-level conversion variable not occurred markedly in California,²⁹ public two-year institutions flaunt lower institutional cost.

While tuition-setting authority varies between states, more states have provided colleges with increased tuition setting autonomy in the past few years, which has resulted in further increases and deregulation. Aggregate data provides an adequate measure of overall trends in the US, but tuition, costs, funding and policies vary widely between states. State-level case studies, however, simply exhibit institutions approaching the aforesaid issues in variant ways with markedly different results. Additionally, cross-state comparisons demonstrate that republican-led state governments correlate with higher tuition rates.³⁰

CONVERSION IN FEDERAL FUNDING

As states, on average, pushed costs onto students via the failure to keep pace with funding requirements, federal aid also shifted through a process of conversion. Over the years, updates to the 1964 Higher Education Act redirected the emphasis from direct institutional federal funding toward a system of need-based aid. Pell Grants, a prevalent form of federal aid, attempted to keep pace with rising prices and enrollments, but, much like state funding, lagged and depreciated in value. Along with the federal conversion toward expanded need-based aid, government loans have come to constitute the largest portion of federal aid, outpacing grants in recent years.

The reauthorization of the Higher Education Act in 1972 first introduced federally funded low-income grants—i.e., Pell Grants. The number of Pell Grant recipients has skyrocketed since the 1980s, rising from 2.7 billion to 7.6 billion in 2016. Pell Grant expenditures have naturally followed the rise in recipients, increasing from \$6.9 billion to \$28.2 billion over the same time. These increases in recipients and spending, however, do not necessarily mean that federal aid is keeping pace with tuition, but, rather, more postsecondary students are taking advantage of such grants. In fact, the maximum Pell Grant awarded as a percentage of published tuition at public four-year universities declined substantially in the last decade from 83 percent to 60 percent.³¹

In recent years, the quantity of federal aid has continued to surge. From 2005-'06 to 2015-'16, the amount of total federal grants increased by 106 percent, while loans, overall, increased by 36 percent even after steadily declining from a 2010-'11 peak. Conversely, aggregate state grants rose by just 22 percent.³² Federal grant aid as a percentage of students' funding sources is currently the highest it has been in the last 20 years. Currently, at 34 percent, student loans constitute the largest funding source for postsecondary students, with federal grants following behind at 26 percent and

²⁸ Stella Flores, "Pricing out the Disadvantaged? The Effect of Tuition Deregulation in Texas Public Four-year Institutions," *The ANNALS of the American Academy of Political and Social Science*, 655, no.1 (2014): 99-122.

²⁹ Donald Heller, "Public Subsidies for Higher Education in California: An Exploratory Analysis of Who Pays and Who Benefits." *Educational Policy*, 19, no. 2 (2005): 349-370.

³⁰ Michael McLendon, James Hearn and Christine Mokher, "Partisans, Professionals, and Power: The Role of Political Factors in Higher Education Funding," *The Journal of Higher Education*, 80, no. 6 (2009), 686-713.

³¹ *Ibid.*

³² College Board. *Trends in Student Aid*. (Washington D.C, 2016), <https://trends.collegeboard.org/sites/default/files/2016-trends-student-aid.pdf>

state grants at 5 percent.³³ Overall, via Pell Grants, the federal government clearly provides the largest form of direct student funding—excluding lending—in comparison to the states.

The use of loans over time mimes state-level cost shifting, wherein loans—as a form of aid—are seen as an effective way to provide access, but by placing the burden of costs onto students. Again, federal loans are a way to shift costs while leaving formal rules in place. Loans exist as a way for policymakers to enact cost shifting by simply changing the funding source behind the tuition that state-run colleges receive. This has no attenuating effects on either the rising price or cost of education. In fact, as Heller points out, loans often increase the price of college via the addition of origination fees and interest.³⁴ While federal grants affect the net price paid by students, they have no effect on the cost of providing postsecondary education on the state level. Returning to the original question of rising costs and prices, conversion on the state level occurs as a response to the increased *cost* of education, while federal conversion occurs as a response to consequent *price* increase faced by students. As state aid exhibited conversion via a process of cost-shifting (from general fund appropriations to tuition), federal funding in the form of grants has indeed increased with loans now making up the largest percentage of aid.

These forms of conversion signify a move away from the low-tuition policies of the early to mid-twentieth century toward a system of heightened tuition in response to state-level cost increases. Consequently, the federal government has responded to state-level price increases by expanding grants and loans as a form of individual need-based aid, rather than providing appropriations directly to institutions to drive down tuition in general. Given this tradeoff, federal revenue toward higher education has surpassed state revenue regarding funding per student.

CONCLUSION

While some have postulated that public colleges are becoming increasingly privatized, a marked dichotomy still exists between public and private institutions. Moreover, Hacker, Pierson and Thelen's conversion model allows for more specificity by differentiating between form and impact. As we've seen, state support, though recently outpaced by tuition revenue, still makes up a large amount of public institutions' operating revenue.

The state-level dilemma of declining tax revenues, coupled with the spending pressures of other publicly funded services, has provided a conduit for conversion to occur in higher education funding. Some states kept college prices down, while others, like California, witnessed dramatic percentage increases in the past few years for their public four-year institutions.³⁵ Cost increases force states to act, and, on average, states have responded with conversion rather than increased appropriations.

With the expansion of technology during the latter part of the twentieth century, higher education witnessed the cost of providing its service increase along with heightened demand. Faced with increased enrollments and costs, states must provide either equivalent subsidies or increased prices. Given declining tax revenues and recent recessions, budgetary issues hit higher education hardest due to their ability to shift rising costs from public appropriations to students. As students have faced higher sticker prices over the years, the federal government has increased its role in providing need-based redistributive aid to attenuate student-incurred price increases.

Conversion occurs as a response to a chain of causality. Rising educational costs and deficient tax revenues have pushed states to raise prices. Federal aid, rather than responding with investment policies that would drive down tuition prices for students, *en masse*, has responded with

³³ College Board. *Trends in Student Aid*. (Washington D.C, 2016), <https://trends.collegeboard.org/sites/default/files/2016-trends-student-aid.pdf>

³⁴ Heller, "State Support of Higher Education."

³⁵ College Board. *Trends in Student Aid*.

redistributive aid and lending, which seeks to decrease recipient students' net tuition prices or offset their costs. In this sense, federal aid in the form of grants is indirectly providing state institutions with operating revenues by funding student appropriations. Thus, state level conversion has not only shifted costs onto students, but also onto the federal government, which has now surpassed state funding as a revenue source.

If policy makers intend to drive tuition prices down, public appropriations (either federal or state) must, therefore, match the cost and output of public higher education institutions or else conversion will continue to occur. Furthermore, as federal aid (both lending and student grants) simply subsidizes individual student cost, any federal policy aimed at lowering institutions' tuition levels directly would require a return to providing direct institutional appropriations.